

TESTIMONY of
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“Patent Quality Improvement”

BEFORE the
House Judiciary Committee Subcommittee on Courts, the Internet, and Intellectual
Property

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Introduction

Chairman Smith, Ranking Member Berman and members of the Subcommittee, my name is Darin Bartholomew. I am senior counsel for Deere & Company where I focus on intellectual property and technology matters. I am pleased to testify today on behalf of John Deere Credit and The Financial Services Roundtable and BITS, which are affiliated financial services trade associations.

John Deere Credit is one of the largest equipment finance companies in the United States, with more than 1.8 million accounts and a managed asset portfolio of nearly \$16 billion. It provides retail, wholesale and lease financing for agricultural, construction and forestry, commercial and consumer equipment (including lawn and grounds care) and revolving credit for agricultural inputs and services. John Deere Credit also provides financing in Argentina, Australia, Brazil, Canada, Finland, France, Germany, Italy, Luxembourg, Spain, and the United Kingdom.

The Financial Services Roundtable (www.fsround.org) represents 100 of the largest diversified financial services companies providing banking, insurance, and investment products and services to American businesses and consumers. Member companies participate through their chief executive officer and other senior executives nominated by the CEO. Roundtable member companies account directly for over one million jobs.

BITS (www.bitsinfo.org) was created in 1996 to foster the growth and development of electronic financial services and e-commerce for the benefit of financial institutions and their customers. BITS provides intellectual capital and addresses emerging issues where financial services, technology and commerce intersect. BITS's Board of Directors is made up of the Chairmen and CEOs of twenty of the largest U.S. financial services companies, as well as representatives of the American Bankers Association and the Independent Community Bankers of America.

I am pleased to testify as a member of The Roundtable's Patent and Intellectual Property Working Group. John Deere Credit, as well as its parent, Deere and Company, is intensely interested in patent quality issues at the USPTO. We are grateful that you have begun the discussion of these matters with your comprehensive Committee Print. We agree with many of the concepts which you included in the Committee Print and we appreciate the opportunity to provide you and other members of the Committee with comments.

Today, over 800,000 applications¹ are pending in the PTO and Examiners are unable to spend enough time to provide a meaningful examination on complex applications.² Regardless of which factors contribute to a lack of patent quality, businesses of all shapes and sizes, including banks, broker-dealers, insurers and finance companies are threatened by a large and growing number of frivolous claims of patent infringement. Currently pending claims of infringement are a serious problem, but they are only the tip of the iceberg because of the lag in allowance of patent applications related to business methods and financial services. After the landmark decision in *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), the number of pending patent applications that involve financial services have surged generally.³ Because it typically takes more than three years to procure allowance of applications for business methods (e.g., Class 705),⁴ the risk of increased litigation for the financial services industry is now present. If not addressed by appropriate legislation, the current trend will lead to a greater number of frivolous claims filed against financial firms in coming years.

¹ U.S. PATENT AND TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2004, available at www.uspto.gov/web/offices/com/annual/2004/060405_table5.html (last visited April 27, 2005).

² FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, A REPORT BY THE FEDERAL TRADE COMMISSION, October 2003, at 5.

³ See, e.g., STEPHEN A. MERRILL, RICHARD C. LEVIN, AND MARK B. MYERS, NATIONAL RESEARCH COUNCIL, A PATENT SYSTEM FOR THE 21ST CENTURY, 2004 at 86 (prepublication copy).

⁴ *Id.* at 90.

There are steps that Congress can and should take to provide financial firms and other businesses with additional safeguards against these frivolous claims, without impairing the important protections afforded to intellectual property under the patent law. We recommend five initial measures, which are discussed below:

- Create an opposition proceeding;
- Modify the standard for injunctive relief;
- Improve the prior user rights defense;
- Clarify the damages rules; and
- Promote collaborative research.

We will now provide you with some additional detail regarding each of these measures.

Create an Opposition Proceeding

The USPTO proposed a post-grant review of patent claims in their 21st Century Strategic Plan that was released in 2002. We strongly support establishment of an opposition proceeding and appreciate your inclusion of the concept in the Committee Print. We recommend that the opposition procedure allow the public to petition the USPTO to cancel one or more claims in a patent within 12 months of issuance (a timeframe supported by the Administration) under section 323. The counterpart U.K. opposition law provides for an opposition proceeding within two years after the date of grant,⁵ but the European Patent Convention opposition period is only 9 months.⁶ We respectfully suggest the creation of a reasonably moderate time frame of 12 months by changing the language of section 323 from "9 months" to "12 months" in the Committee Print.

⁵ Section 72(2)(b) of the U.K. Patents Act of 2004.

⁶ EPC Art. 99.

Further, we recommend allowing anyone who is threatened with a patent infringement action to file a request for an opposition proceeding within four months after receiving notice of the patent infringement action. Without the four month window for initiation of an opposition proceeding upon a threat of patent infringement, the opposition proceeding would be seldom used. Organizations would not likely expend the resources necessary to monitor the patents of their competitors or the resources necessary to invalidate a patent in an opposition proceeding without any tangible economic return. However, an infringement action provides a sufficient economic incentive to use an opposition proceeding to avoid paying infringement damages for a questionable patent or a patent of suspect validity. Moreover, the 4 month window for launching an opposition would foster a more detailed scrutiny of patents than ordinarily occurs during the typical 25 hours or less of examination at the PTO.⁷

Under the proposed opposition procedure, the patentability of issued claims would be filed with the Director and subsequently reviewed by Administrative Patent Judges of the Board of Appeals of the USPTO. In section 321(a) after "opposition" (first occurrence) for clarification, we suggest inserting "with the Director in United States Patent and Trademark Office." In section 325, we suggest deleting "The determination by the Director to dismiss may not be appealed" so that the Patent Office and Director are subject to the checks and balances of the judiciary.

Maintaining the secrecy of the identity of the opposer is important to discourage retaliatory action between competitors, which might discourage using the opposition proceeding in the first place for fear of triggering an extensive opposition war over broad patent portfolios of competitors. The U.K. law also

⁷ FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, A REPORT BY THE FEDERAL TRADE COMMISSION, October 2003, at 5.

supports secrecy of the opposing party in opposition proceedings.⁸ Accordingly, in section 322, we suggest deleting "or to any person upon showing of good cause" because this intended exception represents an abyss that would swallow the entire rule on maintaining secrecy of the opposing party.

Section 324 of the Committee Print provides that the opposition proceeding may be based on an extensive scope of validity matters, similar to the standards used in Europe and the U.K.⁹ We agree with the broad scope of the opposition proceeding in the Committee Print because it provides a readily available, reasonably prompt and cost effective way to determine patentability as a follow up to initial examination by the PTO without imposing unreasonable burdens on patentees. The opposition procedure would enable companies to manage the risk of claims against them based on bad or suspect patents, without incurring the high cost of litigation or facing the need to settle to avoid that cost.

Under Section 338 of the Committee Print, the opposer can drop out or settle with the patent owner, where the Director or Board has actual knowledge that one or more claims are invalid, but fails to issue an opinion. Accordingly, the existing language should afford the Director or Board the opportunity to issue an opinion in the public interest in such a case, regardless of whether the opposer drops out or settles with the patent owner. Accordingly, in section 338(a), after "filed" (first occurrence), we suggest you insert "or unless the Director decides in its discretion to issue a written decision under 331 that invalidates one or more claims of the applicable patent." Similarly, any opposer that remains in the opposition proceeding, or any opposer in a separate proceeding under section 325(c), should be given an opportunity to add any ground of invalidity raised by an opposer whose request to terminate has been granted by adding appropriate language to the Committee Print.

⁸ See, e.g., *Sanders Associates*, BL 0/89/81.

⁹ See, e.g., Section 72(1)(b) of the U.K. Patents Act of 2004.

Estoppel issues have plagued inter partes reexamination proceedings and discouraged their use. After any appeal rights¹⁰ are exhausted, a third party re-examination requestor is generally precluded from later challenging the validity of claims that survive inter partes reexamination on any ground that was raised or could have been raised during the inter partes reexamination.¹¹ Therefore, we recommend narrowly tailoring the language of the estoppel provision of section 336 to encourage use of the opposition proceedings. For instance, we suggest amending section 336(a)(1) as follows: after "law" delete the language to the period and replace with "where an identical issue was actually raised and decided in the opposition proceeding, and necessary to the determination of that issue of invalidity." Further, we recommend modifying section 336(a)(2) by adding "raised and" after "actually" and "of an issue of invalidity" after "final determination."

Modify the Standard for Injunctive Relief

Currently, if the patent owner clearly shows that a patent is valid and infringed, the patent owner is entitled to a rebuttable presumption of irreparable harm,¹² which favors the granting of injunctive relief. In many countries, including Canada and most European countries, injunctive relief is not available for paper patents that have not been worked. That is, if the owner of a patent does not use the patent within a specified period of time, the owner may lose the ability to obtain injunctive relief. For example, in the U.K. a party may apply for a compulsory license if the patentee fails to work the patent at any time after the expiration of three years from the date of the grant of the patent and if relevant

¹⁰ 35 U.S.C. 134(c)(2004) relates to appeals to the Board of Appeals, whereas 35 U.S.C. 315(c)(2004) covers appeals to the Federal Circuit.

¹¹ 35 U.S.C. 315(c)(2004).

¹² *Jack Guttman, Inc. v. Kopycake Enters, Inc.*, 302 F. 3d 1352, 1356 (Fed. Cir. 2002).

grounds are satisfied.¹³ The relevant grounds deal with whether or not the demand for a patented product is met on reasonable terms,¹⁴ among other things.

Rather than adopting a complex compulsory license provision, we support the general language of the Committee Print, where a court grants an injunction on a patent only if the patentee is likely to suffer immediate and irreparable harm that cannot be remedied by the payment of money damages alone. If an inventor can demonstrate a likelihood of irreparable harm and the patentee or its licensee have worked the invention in the U.S. within a reasonable time (e.g., 1 to 3 years) after the grant of the application, injunctive relief ought to be available. Accordingly, we suggest replacing the language of proposed Section 283(b), "including the extent to which the patentee makes use of the invention" to "including the extent to which the patentee works the invention within a reasonable time after the grant of the patent." In this case, "worked" would mean "making, using, selling, or having made the subject matter of the claimed invention on a material commercial basis by the patent owner or its licensee."

Improve the Prior User Rights Defense

The prior user rights defense under 35 U.S.C. 273 is an important protection for financial institutions especially due to the recent growth in patent litigation. However, in its current form, the prior user rights defense is merely limited to "business methods." Business methods have proved difficult to define in practice and are not defined anywhere in the Patent Act. Accordingly, a patent owner of a business method patent may characterize its business method as a system or apparatus to circumvent the application of the prior user defense. For the this reason, the prior user defense should be modified to apply equally to any methods, products or services covered by a patent, as proposed in the Committee

¹³ Section 48(1), U.K. Patents Act of 2004.

¹⁴ Section 48(1)(a), U.K. Patents Act of 2004; See, e.g., *Swansea Imports Limited v. Carver Technology Limited*, BL 0/170/04.

Print. Further, we suggest that any bill strike the automatic provision of attorney's fees.

Another problem with the prior use defense is the high level of proof required to successfully assert the prior user defense. Currently, in the Committee Print the prior user defense requires "clear and convincing evidence." Although "clear and convincing evidence" is generally appropriate where patent invalidity is invoked as a defense¹⁵, here under the prior use defense the patent owner's patent is not invalidated and may be enforced against third parties. The limited applicability of the defense to circumstances of the prior use and the absence of patent invalidity supports changing the language of former Section 273(b)(4) from "clear and convincing" to "preponderance of the evidence."

Clarify the Damages Rules

The present patent law is subject to abuse by patent holders who go fishing for infringers, or worse, to coerce law-abiding companies to accept large licensing fees. By simply sending a letter, at the cost of nothing more than a 37-cent stamp, a patent holder can set in motion a very costly process for the alleged infringer: hence the term "37-cent notice." The recipient of the letter has to undertake an investigation, incurring the cost of personnel time and legal counsel, both of which can be substantial. Failure to conduct the necessary due diligence could later subject the alleged infringer to treble damages. The accusing patent holder incurs no risk or cost, other than the cost of a stamp.

The patent law should be modified to provide that enhanced patent infringement damages may not be awarded: (1) on the basis of the mere knowledge of a patent or its contents by the defendant prior to suit, unless the knowledge meets specifically enumerated criteria that are sufficient to give notice of a genuine issue of potential infringement to the defendant, or (2) for any infringement occurring prior to the defendant's receipt of written notice from the

¹⁵ *Bausch & Lomb, Inc. v. Barnes-Hind/Hydrocurve, Inc.*, 796 F.2d 433 (Fed. Cir. 1986).

plaintiff of a charge of infringement, which identifies the specific patent, claims, and alleged infringing products or services at issue and which is sufficient to give the defendant an objectively reasonable apprehension of suit on the patent.

Notwithstanding those limits, we believe that a patent infringer should be subject to payment of enhanced damages if: (a) the infringer deliberately copied the patented subject matter; or (b) the patent was asserted against the infringer in a previous U.S. judicial proceeding, and the subsequent infringement is not more than colorably different from the conduct asserted to be infringing in the previous proceeding, as proposed in the Committee Print. Consistent with the above comments, in proposed section 284(4)(d)(1), we respectfully suggest modifying the last sentence as follows: "Increased damages may not be awarded based merely upon the knowledge of a patent or its contents by the defendant prior to suit, where such knowledge does not comply with the following paragraph (Section 284(4)(d)(2))."

We appreciate the intention explicit in the discussion draft to limit the award of treble damages for infringement. Certainly this will cut down on frivolous notices and the lawsuits that follow.

Promote and Protect Collaborative Research

We generally support the refinements to the novelty provision (Section 102) set forth in the Committee Print. In general, the proposed novelty provision is an attempt to align U.S. novelty standards with international patent standards. Although the present language of Section 102 in the Committee Print implies that "known" means "known to the public" and that "accessible" means "accessible to the public", there is a risk that a judge might interpret the prior art merely to mean that which is accessible to one of ordinary skill in the art (traditionally an enablement requirement), regardless of whether is available to the public or not. Accordingly, we suggest tailoring the language of the Committee Print to eliminate the possibility of the judicial creation of secret prior art that might be

damaging to collaboration between parties. "Secret prior art .. is not favored for reasons for public policy," except for 102(e) prior art.¹⁶

Under section 2(2) of the U.K. Patents Act of 2004, "The state of the art in the case of an invention shall be taken to comprise all matter .. which has at any time before the priority date of that invention been made available to the public .. by written or oral description, by use or in any other way." Under Article 54(2) of the EPC, "The state of the art shall be held to comprise everything made available to the public by means of a written description or oral description, by use, or in any other way, before the date of filing the European patent application." The clear reference to "available to the public" is extremely significant in that it supports the ability of organizations in Europe to protect against novelty-destruction by entering into confidentiality agreements incidental to research and development activities. For example, in Europe a secret sale of an invention (e.g., a prototype) that is subject to a non-disclosure agreement is simply not regarded as prior art.¹⁷

In contrast, under certain judicial interpretations of current U.S. law, if company A contracts or collaborates with company B for the development of a prototype, design, or preliminary product or licenses the invention; an infringer may argue that the transaction qualifies as an invalidating secret offer for sale or sale.¹⁸ Although the patent owner may ultimately prevail on technical arguments under a vague totality of circumstances test, the presence of a binding air-tight confidentiality agreement is not decisive of the outcome under the totality of the circumstances test.¹⁹ Moreover, additional legal services may be required to successfully defend the patent validity.

¹⁶ *Kimberly-Clark v. Johnson & Johnson*, 745 F.2d 1437, 1446 (Fed. Cir. 1984).

¹⁷ See, e.g., 1992 O.J.E.P.O 646, 652.

¹⁸ *M&R Marking Systems, Inc. v. Top Stamp, Inc.*, 926 F. Supp. 466, 470-471 (D. N.J. 1996); *In Re Kollar*, 286 F.3d 1326, 1334 (Fed. Cir. 2002).

¹⁹ The use of a confidentiality agreement or other obligation of confidentiality is merely a factor that favors the finding of experimental use and prevents invalidation under the statutory bar. See, e.g., *Netscape Communications Corporation v. Konrad*, 295 F. 3d 1315 (Fed. Cir. 2002).

For the foregoing reasons we recommend the following changes to the novelty provision in the Committee Print: (1) in Section 102(1)(a) and 102(a)(1)(B), add the words "to the public" after "known"; (2) in section 102(c) replace "Accessibility" with "Availability"; (3) in section 102(c)(1) and 102(c)(2) replace "accessible" (all occurrences) with "available to the public"; (4) in section 11(c)(2), "Applicability, Transitional Provisions," replace "accessible to persons of ordinary skill in the art" with "available to the public". The above changes to the Committee Print will allow organizations to contractually protect against unintentional invalidity of patents by executing a binding non-disclosure agreement with collaborating organizations.

Conclusion

Both The Financial Services Roundtable and BITS are strong believers in the U.S. patent process as fundamental to a healthy U.S. economy and robust free enterprise system, and strong believers in the process you have started. With increases in pending patent applications and claims of infringement, there is a need for Congressional debate and frank discussion with members of the financial services industry and the patent community at large. Given the importance of the patent process, the USPTO should be fully funded without fee diversion and given adequate resources to perform its duties. The key issues, however, are the ones addressed in the proposal you have put forward. It is not enough for the USPTO to turn out patents in greater quantity if those patents are not of the highest quality. I know that Director Dudas shares this view and we appreciate his dedication to patent quality issues. Current efforts to craft legislation are to be commended, Concepts such as opposition proceedings and reexamination improvements are vital to the viability of the inventors those who constitute a market for their inventions.

Because of increases in frivolous claims of patent infringement, we encourage you to continue your focus on appropriate defenses and other tools for litigation risk management, especially efforts to curb the use of injunctive relief..

We look forward to participating further as you develop and move legislation to improve of patent laws .

Federal Grants or Contracts Relative to the Testimony

Deere & Company provides the U.S. Department of Defense with equipment sales via competitive bid and cooperates with DOD-led research and development. Disclosure germane to patent reform includes the following: Deere & Company has or will receive a subrecipient federal grant from the U.S. Navy to Penn State. Specifically, Phoenix International Incorporated, a wholly owned subsidiary of Deere & Company, is presently a subrecipient of \$ 30,000 of funds via The Pennsylvania State University, acting through its Applied Research Laboratory, to perform research under Prime Cooperative Agreement No. N00014-99-2-0005 from the Office of Naval Research during 2005. Phoenix International Incorporated may receive additional funds to complete further research and development under the Prime Cooperative Agreement. In addition, in the FY 05 Department of Defense budget, \$1M was appropriated to the U.S. Army's National Automotive Center for the purpose of performing fuel cell and patented unmanned vehicle research on the Deere & Company M-Gator platform.

Recent Work Experience:**Darin E. Bartholomew****Senior Attorney, Deere & Company (2002- Present)**

Preparing and negotiating research and development agreements with various organizations, sponsored research agreements with universities, Cooperative Research and Development Agreements (CRADA's) with governmental entities, and license agreements for patents, software, and technology. Providing educational presentations on intellectual property matters to employees and subsidiaries of Deere & Company. Preparing and prosecuting patent applications for innovative technical developments and business methods in areas such as vehicular navigation and financial services.

Brinks, Hofer Gilson and Lione, Chicago, IL**Patent Attorney (2000-2002)**

Preparing patent applications for electronic commerce, financial, and business method patent applications; drafting and negotiating licensing agreements; providing litigation support concerning patent rights in exchange-traded funds (ETF's).

Birch Stewart Kolasch and Birch, Falls Church, VA**Patent Attorney (1998-2000)**

Counseling clients on intellectual property matters and drafting patent applications for Lucent Technologies on telecommunications, wireless, and optical systems.

Motorola, Inc., Schaumburg, IL**Manager of Product Planning and Patent Agent (1995-1998)**

Managing comprehensive business matters for a complete line of wireless communications equipment to reduce the costs of goods sold and increase sales on an annual basis. Negotiating commercial contracts with suppliers and conducting quality audits of suppliers to achieve quality goals. Preparing patent applications for corporate research and development activities related to semiconductors, printed circuit boards, and liquid crystal displays.

Education:**Northwestern University, Evanston, IL**

B.S. in Electrical Engineering (1984-1988)

John Marshall Law School, Chicago, IL

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LL.M. in Securities and Financial Regulation (1998-1999)

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Is Silence Golden When It Comes to Auditing?, The John Marshall Law Review (Fall 2002).

Bar Admissions:

Illinois, New Jersey, Pennsylvania, U.S. Patent and Trademark Office, and the Trial Bar for U.S. District Court for the Northern District of Illinois.

